IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

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If the U.S. economy handed out awards the way Hollywood gives out Oscars, the nation's housing sector would receive an armful of golden statuettes for its performance in 2004. A review of last year's numbers attest to this important sector's strong showing. Existing home sales totaled 6.61 million units and there were 1.18 million new homes sold. Both were well above their 2003 showing, and earned them places in the record books. In addition, single-family starts and permits also posted strong numbers. Total housing starts and permits did not set records in 2004, but deserve accolades nonetheless. Their quest for fame was stunted by the lackluster performance of the multi-family housing sector. Still, total housing starts approached two million units in 2004, which makes it the biggest blockbuster year since *The Deer Hunter* won Best Picture in 1978.

Like *Napoleon Dynamite*, the national housing sector was last year's sleeper hit. While it was expected to do well, no one anticipated its record-setting showing. For example, in December 2003 Global Insight predicted both total housing starts and total housing sales would decline in 2004 from its 2003 pinnacle. This forecast reflected the impacts of anticipated interest rate increases that would raise the mortgage interest rate for existing home loans from 5.8% in 2003 to 6.6% in 2004. Although short-term interest rates did rise in 2004, mortgage rates were virtually unchanged.

But it was more than just low mortgage interest rates that fueled the housing sector's blockbuster year. Other factors combined with low mortgage interest rates to boost this sector to last year's apex. The winners for supporting roles include strong real disposable income growth, historically low unemployment rates, and sanguine homebuyers. Strong housing price appreciation also played a major role.

This latter factor deserves further attention. Investing in housing was more lucrative than investing in stocks last year. According to the Office of Federal Housing Enterprise Oversight (OFHEO), U.S. housing prices rose 11.2% from the fourth quarter of 2003 to the fourth quarter of 2004. In comparison, Standard and Poor's 500 Common Stock Index increased about 10.0% over the same period. In fact housing has out performed stocks over the last five years. Specifically, U.S. housing prices appreciated about 50% since 1999, while the stock market declined nearly 15%.

Some housing markets are hotter than others. Topping the list is Nevada. Last year, its housing prices appreciated nearly 33%. Hawaii placed second with a 25% increase. Rounding out the top five were California (23%), Washington, D.C. (23%), and Florida (19%). It should be noted that housing prices doubled during the last half decade in California, Washington, D.C., and Rhode Island. Housing prices advanced about 11% last year in Wyoming, Oregon, and Washington. Prices in Idaho increased just over 10%, Montana's prices rose just under 10%, and Utah's grew about 5%.

A market this hot raises fears of a housing bubble that will soon burst. Although it appears the national housing picture will not collapse, there are some regions that are at high risk. PMI Mortgage Insurance Company (PMI) recently published a report covering the vulnerability of the nation's 50 largest housing markets to falling prices over the next couple of years. After considering several economic factors, PMI concluded the housing markets most vulnerable to price decreases were Boston-Cambridge-Quincy, MA-NH; San Jose-Sunnyvale-Santa Clara, CA; San Francisco-Oakland-Fremont, CA; San Diego-Carlsbad-San Marcos, CA; and Providence-New Bedford-Fall River, RI-MA. All of these markets have experienced significant price appreciation in recent years. One has to move away from the coasts to find the five major housing markets with the lowest risks for declining prices. They are Indianapolis, IN; Rochester, NY; Oklahoma City, OK; Buffalo-Niagara Falls, NY; Pittsburg, PA. A listing for all 50 markets can be found at PMI's website
http://www.pmigroup.com/lenders/media_lenders/pmi_eret05v1s.pdf

The good news is that the Gem State's housing sector is not at risk of a collapse and should fare well over the next few years. The Division of Financial Management believes Idaho housing starts will soften slightly in 2005 due to rising interest rates and slower population growth. Specifically, Idaho housing starts are predicted to fall from 18,077 in 2004 to 17,634 in 2005.

DIRK KEMPTHORNE, Governor

Division of Financial Management
700 W. Jefferson, Room 122
PO Box 83720
Boise, Idaho 83720-0032 (208) 334-3900
ADDRESS SERVICE REQUESTED

Brad Foltman, Administrator

Economic Analysis Bureau
Michael H. Ferguson, Chief Economist
Derek E. Santos, Economist

General Fund Update

As of February 28, 2005

Revenue Source	FY05 Executive Estimate[3] ($ Millions)	DFM Predicted to Date ($ Millions)	Actual Accrued to Date ($ Millions)
Individual Income tax	974.5	633.7	614.2
Corporate Income tax	120.6	60.9	70.5
Sales Tax	933.4	635.7	642.3
Product Taxes[1]	22.4	15.1	15.4
Miscellaneous	105.9	49.3	57.4
TOTAL GENERAL FUND[2]	**2,156.9**	**1,394.6**	**1,399.7**

1 Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
2 May not total due to rounding
3 Revised Estimate as of January 2005

General Fund revenue was sharply ($20.8 million) behind expectations in February as a consequence of a very large number of individual income tax refunds. This is believed to be strictly a matter of timing, and is expected to reverse itself by the end of the fiscal year. In spite of February's setback, General Fund revenue is still $5.1 million ahead of expectations on a year-to-date basis. This strength is spread across each of the other four major revenue categories.

Individual income tax collections were $26.3 million lower than expected in February. For the month filing collections were $0.8 million higher than expected and withholding collections were $3.1 million lower than expected. Refunds were $23.6 million higher than expected. This large refund number simply reflects significant changes in technology (TurboTax, the internet, improved software at the Idaho Tax Commission, etc.) that have dramatically accelerated refund processing. An equivalent reduction in refunds (relative to predicted values) should occur in the final months of this fiscal year. On a year-to-date basis filing collections are $8.9 million ahead of expectations, withholding collections are $1.4 million below expectations, and refunds are $26.5 million higher than expected.

Corporate income tax collections were $2.0 million lower than expected in February. This reduces the year-to-date excess to $9.6 million. February's weakness was primarily due to estimated payments that were $1.7 million lower than expected. However, on a year-to-date basis estimated payments are still $5.5 million higher than expected.

Sales tax collections were $4.8 million higher than expected in February, bringing the year-to-date excess to $6.7 million. This is the second strongest performance of the entire fiscal year, and is particularly impressive considering that the first and third place months occurred in July and August, when the forecast was $22.6 million lower. February's strength suggests that durable purchases (housing and transportation related) were quite strong in January.

Product taxes were $0.1 million higher than expected in February due to strength in the cigarette and tobacco taxes. Miscellaneous revenues were $2.6 million higher than expected in February primarily due to strength in the insurance premium tax.